

# Report of the auditor-general to the Gauteng Provincial Legislature and the council on Lesedi Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Lesedi Local Municipality as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Management Finance Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

### Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

## **Emphasis of matters**

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

7. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2019.

## **Material impairments**

8. As disclosed in note 11 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors' amounts to R595,24 million (2017-18: R490,87 million), which represents 79,71% (2017-18: 80,07%) of total consumer debtors. The contribution to the provision for debt impairment, as disclosed on note to the financial statements, was R133,18 million (2017-18: R106,53 million).

## **Material losses – electricity**

9. As disclosed in note 57 to the financial statements, material electricity losses of R51,21 million (2017-18: R38,79 million) were incurred, which represents 27,28% (2017-18: 23,53%) of total electricity purchased. Technical losses amounted to R9,7 million (2017-18: R8,5 million) and were due to the electricity that was lost on distribution from the source of generation through the transmission and distribution network to the final consumer. Non-technical losses amounted to R41,5 million (2017-18: R30,2 million) and were due to administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption and faulty meters.

## **Material losses – water**

10. As disclosed in note 57 to the financial statements, material water losses of R19,045 million (2017-18: R16,83 million) were incurred, which represents 25,11% (2017-18: 25,84%) of total water purchased. Technical losses amounted to R4,20 million (2017-18: R3,61 million) and were due to water that was lost on distribution from the source of generation through the transmission and distribution network to the final consumer. Non-technical losses amounted to R14,84 million (2017-18: R13,22 million) and were due to persistent leakages as a result of aging water supply infrastructure and illegal connections.

## **Irregular expenditure**

11. As disclosed in note 51 to the financial statements, irregular expenditure of R R60,81 million that was incurred in the previous year was still not investigated.

## **Other matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

13. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it. Responsibilities of accounting officer for the financial statements.

## **Responsibilities of accounting officer for the financial statements**

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.


## **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key performance area	Pages in annual performance report	Opinion	Movement
Programme 2 – Basic service delivery	x – x	Qualified	

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the usefulness and reliability of the selected key performance indicators are as follows:



## KPA 2 – Basic service delivery

### Various Indicators

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 6 of the 32 indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Indicator description	Reported achievement
Percentage completion of 0,862 km of roads and storm water upgrades at Jameson Park (Cumulative)	100%
Percentage of new houses electrified	100%
Number of new stands with access to sanitation connections	650
Number of new houses with minimum access to refuse removal services	320
Percentage of new houses with access to water	100%
Percentage completion on construction of sports field in Rensburg ext. 4 (Cumulative)	46%

### Number of properties identified for human settlement development in accordance with the rapid land release programme.

24. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of 60. This was due to inadequate technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 60 as reported in the annual performance report.

### Other matters

25. I draw attention to the matters below:

#### Achievement of planned targets

26. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 to 24 of this report.

#### Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 – Basic service delivery. As management subsequently corrected only some of

the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
29. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements**

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### **Expenditure management**

31. Reasonable steps were not taken to prevent irregular expenditure amounting to R60 811 173 as disclosed in note 51 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the irregular expenditure was caused by deviations from procurement processes and non-compliance with section 36(1)(a) of the MFMA.
32. Money owed by the municipality was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.

### **Procurement and contract management**

33. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by supply chain management (SCM) regulation 17(a) and (c). Similar non-compliance was reported in the prior year.
34. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
35. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

36. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

#### **Consequence management**

37. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) and 32(2)(b) of the MFMA.

#### **Revenue management**

38. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### **Asset management**

39. Capital assets were permanently disposed of without the approval of the council, in contravention of section 14(1) of the MFMA

#### **Other information**

40. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report, executive mayor's foreword and municipal manager's foreword. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
41. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
42. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. I have nothing to report in this regard

#### **Internal control deficiencies**

43. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual financial statements, annual performance report and the findings on compliance with legislation included in this report.
44. Management did not exercise oversight of financial and performance reporting and compliance and related internal controls.

45. Management did not implement proper record-keeping controls over documents relating to the financial statements and predetermined objectives.

*Auditor-General*

Johannesburg

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Lesedi Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.